



17. The Private Commercial Sector

Summary

Private commercial activities are a reflection of the economic development of a country. They are measured by their share of the gross domestic product (GDP), providing an indication of market preferences for the quality of goods and the income level of the population. These private commercial activities can also provide a guideline for investment decisions that are responsive to market needs and that aim to set up private investment projects that will accumulate internal and external liquidity.

This sector suffers a number of problems in the Kurdistan region, being import-oriented with no role for exports in foreign trade. This situation is the result of:

- Poor domestic production in various sectors of the economy;
- Lack of a clear government trade strategy;
- Commercial, fiscal, and financial legislation that is incompatible with market economies and unsupportive of trade;
- Market instability stemming from fluctuations in domestic currency exchange rates;
- High foreign insurance and transport costs.

Recently, a special trade ministry was established in the Kurdistan region to develop commerce as a main tool of economic development and to enact legislative, policy, and procedural reforms designed to boost the role of business associations, in addition to customs reforms to deter dumping and offer alternatives to enable the transition to a market economy.

Introduction

Private commercial activities are a reflection of economic development of a country and contribute greatly to its gross national product (GNP). Healthy growth in the GNP is reflected in the increase in national expenditure (consumption plus investment). This role is mainly shouldered by the private commercial sector when it provides an appropriate level of supplies in goods and services and achieves market equilibrium.

The role of the private commercial sector is seen as an indicator of the status of trade, including foreign trade, the balance of goods in the national economy, the trade balance, and the balance of payments, and as a contributing factor to defining future development goals. In addition, private commercial activity is an indication of trade growth and the structure of goods, constituting an indication of income levels and market attitudes toward the quality of goods. Such activity can also form a guideline for investors in various sectors of the economy, helping them make sound investment decisions and putting in place effective strategies that can cater to market demands and create internal and external liquidity for the region.

Many countries with market economies offer incentives to their citizens and visitors and encourage consumerism, hoping to drive the economy and speed up financial cycles. This in turn would lead to growth in investments, an increase in job opportunities, broader innovative research and development (R & D), and many other advantages and opportunities. Some countries go so far as to calculate the money generated by incoming tourists by the amount they spend on purchases and expenses. However, the situation in the Kurdistan region today can be described as a “reversed crisis,” caused by increased consumption that only leads to more importation.

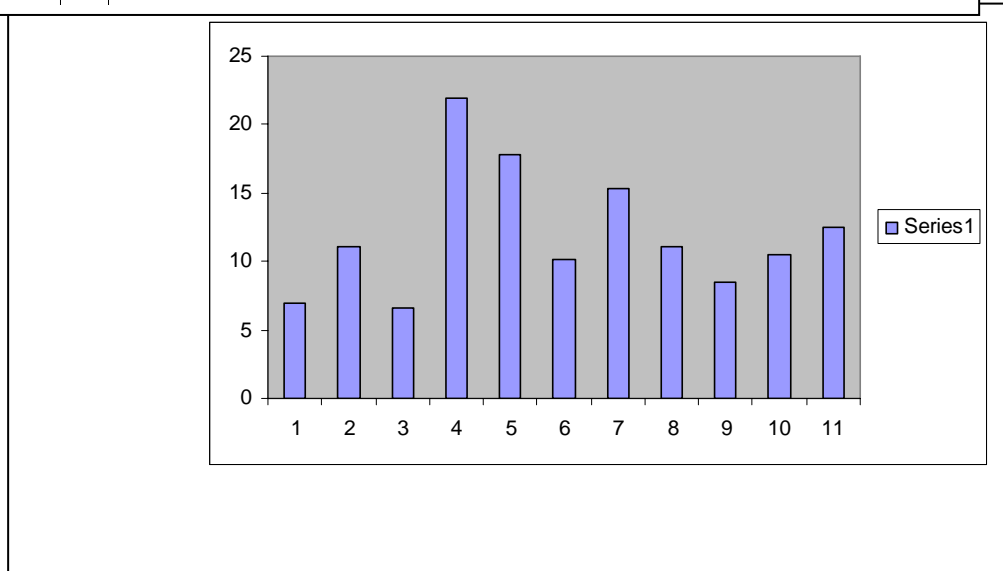
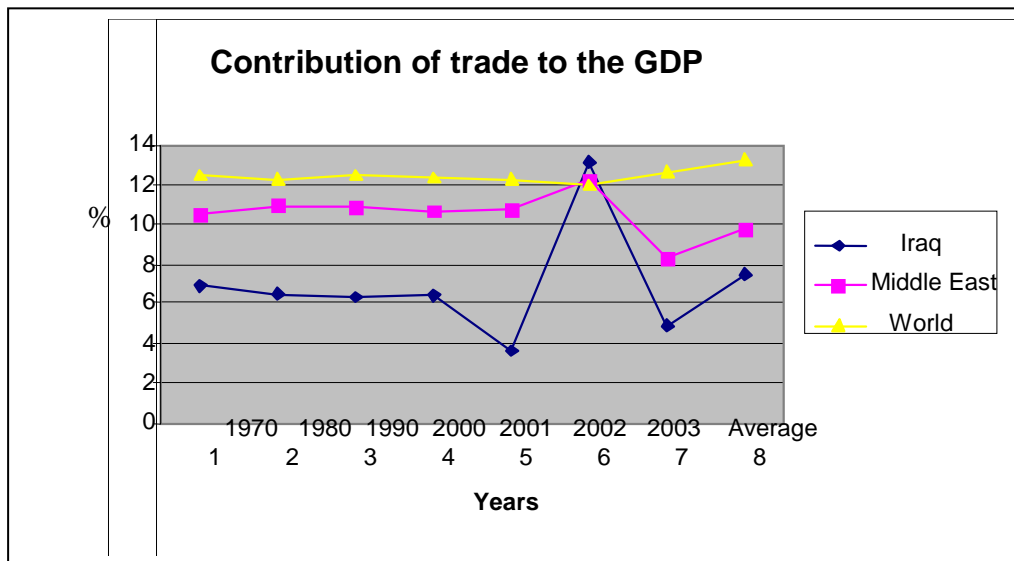
Hence, the private commercial sector in the Kurdistan region is worthy of in-depth study, for the concepts described above, and because this sector literally represents the most prominent economic activity in Kurdistan, especially in its cities and urban centers.

Characteristics of the Private Commercial Sector

1. Commercial activities are concentrated in the centers of the governorates and in specific areas (city centers) due to the disproportionate distribution of commercial activities.
2. The commercial sector depends on imports for most consumer and intermediate goods and some investment goods in the absence of exports. This is a result of poor domestic production in various sectors, especially agriculture, industry, and non-oil mining, all of which have been affected by the extraordinary circumstances of the Iraqi economy.
3. The rise in the share of informal commercial activity, as seen in the activities of individual street vendors and door-to-door salesmen, and the high degrees of smuggling and black market trade.
4. The absence of a clear government trade policy, due to the absence, until recently, of a specialized trade ministry to regulate commerce in the region. This fact places major responsibilities on the newly established Ministry of Trade.
5. Existing commercial, fiscal, and financial laws in the region are not conducive to a market economy in many regards, and these laws do not provide the much-needed support for trade to enable the liberalization of the economy.
6. All the economic sectors in the region, including the private commercial sector, were affected by the continuous fluctuations impacting the Iraqi economy as a whole. Although the region benefited during the nineties as a main transit route for Iraqi oil exports in the direction of Turkey, the fluctuations remained as a main feature of the economy, with negative impacts on the structure of laws and regulations. These laws continued to waver between socialist concepts and government intervention on one hand and aspirations to adopt market economy and liberalize trade on the other.
7. Market instability due to the instability of the local currency, the result of poor financial and monetary policies and unstable political conditions in Iraq, which had a negative effect on the private commercial sector in the region.
8. Poor infrastructure, which is necessary for the success of marketing, distribution, and storage operations and for adding value for the commercial sector in the region. This was the result of a lack of investment by recent central governments.
9. The private commercial sector has contributed little to the GDP in Iraq in general, and in the Kurdistan region in particular. The following table shows the contribution of the share of this sector in Iraq and Middle Eastern countries:

No	Years Countries	1970	1980	1990	2000	2001	2002	2003	Average
1	Iraq	7.5	4.9	13.1	3.6	6.4	6.3	6.5	6.90
2	Iran	9.6	7.3	16.2	11.6	11.8	10.7	10.7	11.13
3	Kuwait	8	7.3	6.7	5.4	6.4	6.5	5.7	6.57
4	Lebanon	27.6	25.5	25.5	18.8	18.8	18.8	18.8	21.97
5	Syria	17.1	23.9	21.5	14.6	14.9	16.3	16.3	17.80
6	UAE	6.5	7.8	8.2	9.3	9.3	10.1	19.5	10.10
7	Turkey	10.5	13.7	15.7	16.9	17	16.9	16.8	15.36
8	Jordan	16.2	14.3	7.7	10.3	10.4	9.8	9.8	11.21
9	Israel	8.1	10.1	7.8	8.6	8.3	8	8.2	8.44
10	Middle East	9.8	8.2	12.2	10.7	10.6	10.8	10.9	10.46
11	World	13.2	12.7	12	12.3	12.4	12.5	12.3	12.49

Source: Annual Statistics of the International Bank for Reconstruction and Development (IBRD). The figures include wholesale and retail trade, hotels, and restaurants.



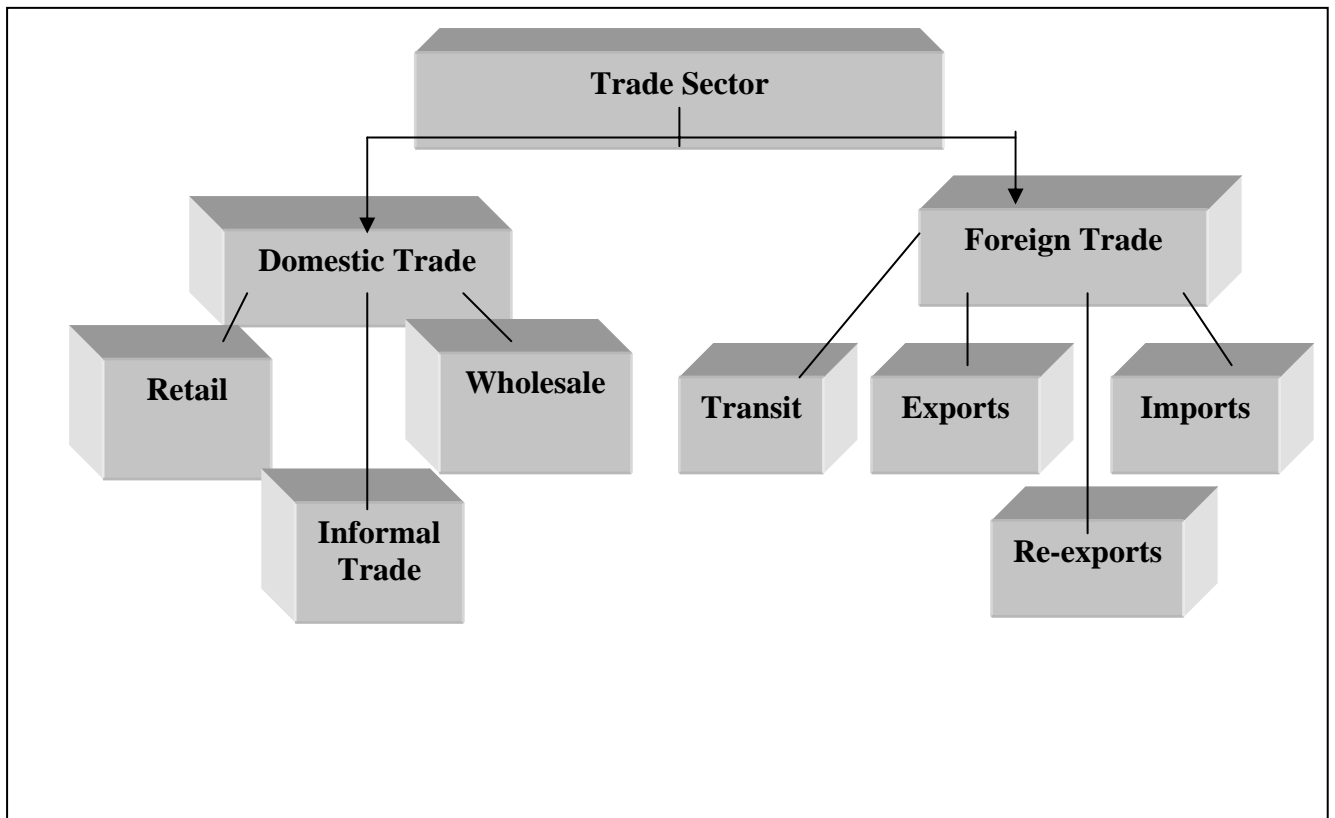
The above table and charts indicate that trade plays an important role in domestic production, as worldwide trade had a share of 13.2 percent in 1970 and over 12 percent in 2003. Compared to most countries in the world, however, this percentage is low for Iraq, fluctuating from one year to another. It stood at 7.5 percent in 1970, dropped to 4.9 percent in 1980 (at the outset of the war with Iran), and to 3.6 percent at the outset of the war to liberate Kuwait. The average for the period from 1970 to 2003 is 6.9 percent, which is the lowest rate except for that of Kuwait. This could be explained by the exceptional circumstances that the Iraqi economy faced, and these percentages reflect the fluctuations of the period. This conclusion is in line with economic theory stipulating that there will be distortions in trade under exceptional circumstances.

Methodology

Main Partners

1. Chambers of Commerce in the Region
2. Iraqi Businessmen's Union
3. Union of Exporters and Importers
4. Owners of major commercial companies
5. Private banks
6. Kurdistan Economists Union

Classification of the Trade Sector



Problems and Proposed Solutions

Exports

Problems	Proposed Solutions
1. Weak and limited non-oil exports comprised of some limited raw agricultural products.	1. Enact an export promotion law reflecting government financial and administrative policies promoting exports, re-exports, and transit, and including customs exemptions, customs refunds, and tax holidays for exports. <u>Stakeholders:</u> Council of Ministers
2. Deficit between imports to the region and exports from the region, with virtually no exports to speak of.	2. Proposed solutions: <ul style="list-style-type: none"> ▪ Implement Investment law No. 4 of 2006 by establishing a strategically planned investment policy to encourage the private sector to invest in productive areas where the region has a competitive advantage in domestic and foreign markets. ▪ Grant export subsidies (but not on a permanent basis, to avoid creating dependency among local producers). ▪ Encourage and support setting up Exporter Associations. Conduct studies of export markets suitable for the capacities of local producers and their ability to produce exports of a quality that are competitive in foreign markets. <u>Stakeholders:</u> Investment Commission Ministry of Finance Ministry of Industry Ministry of Agriculture Ministry of Trade Ministry of Planning
3. Poor exploitation of geographic advantages <ul style="list-style-type: none"> ▪ Poor transit and re-exportation activities for some exported goods. ▪ Lack of free zones on borders with neighboring countries. 	3. Exploit the unique geographic position of the Kurdistan region to establish free zones and promote re-exportation and transit to secure major economic benefits for the region. <u>Stakeholders:</u> Ministry of Trade

Imports

Problems	Proposed Solutions
1. Exploitation by neighboring countries and some Asian countries of the downturn in agricultural and industrial production in the region, dumping into the markets of	1. Proposed solutions: <ul style="list-style-type: none"> ▪ Enact anti-dumping laws that take into consideration the interests of local producers, opportunities for competitive

<p>Kurdistan expired agricultural and industrial products, poor quality electrical products, and even fuel and oil products.</p>	<p>industrial and agricultural capacity development, and the issues involved with entry to the WTO.</p> <ul style="list-style-type: none"> ▪ Adopt a trade policy to combat dumping and protect and promote the interests of local producers without prejudice to free market trends. <p><u>Stakeholders:</u> Ministry of Finance Ministry of Industry Ministry of Agriculture Ministry of Trade Ministry of Planning</p>
<p>2. Rise in insurance costs on goods and means of transport entering the region.</p>	<p>2. Promote the establishment of sophisticated insurance companies and provide them with the necessary facilities to offer this vital service to the economy.</p> <p><u>Stakeholders:</u> Ministry of Planning Ministry of Finance Ministry of Trade Ministry of Agriculture Ministry of Industry</p>
<p>3. Length of time consumed for delivery of imported or internally transferred goods due to bad infrastructure, poor internal transport services, and high costs.</p>	<p>3. Proposed solutions:</p> <ul style="list-style-type: none"> ▪ Improve and develop infrastructure that serves foreign trade and increase government investments in roads and alternatives to transport by road vehicles (such as railroads). ▪ Provide facilities to the private sector to invest in warehouses and to set up modern transport and marketing companies in order to improve transport efficiency and speed and reduce costs. ▪ Reach agreements with neighboring countries to facilitate passage of trucks loaded with goods in and out of the region. <p><u>Stakeholders:</u> Ministry of Planning Ministry of Finance Ministry of Trade Ministry of Agriculture Ministry of Industry</p>

Associations, Business Unions, and Chambers of Commerce

Problems	Proposed Solutions
<p>1. Weak role of commercial business associations in economic decision making. Many laws and procedures are passed without prior consultation of business associations, or they are presented in haste with no time allowed for serious deliberations. In some cases, associations are informed of new legislation only after its enactment.</p>	<p>1. Jumpstart the role of business associations and give them a role in:</p> <ul style="list-style-type: none"> ▪ Economic decision making when conducting studies of suitable export markets and taking part in quality control of target goods. ▪ Creating a database for the commercial sector, making it available to all involved parties. ▪ Evaluating existing laws and proposing new legislation. <p><u>Stakeholders:</u> Council of Ministers Ministry of Trade</p>
<p>2. Businessmen from Kurdistan are not granted visas to a number of foreign countries when they want to travel to complete business-related transactions or to attend fairs or international trade events.</p>	<p>2. Serious efforts on the part of the Ministry of Trade, in coordination with the Ministry of Foreign Affairs and all trade representations abroad, to facilitate businessmen obtaining visas to countries they wish to visit.</p> <p><u>Stakeholders:</u> Ministry of Trade</p>

Quality

Problems	Proposed Solutions
<p>1. Absence of standards and specifications as basic requirements for import quality. Most imported goods are not subject to quality control inspection, and any inspections that take place are primitive and outdated.</p>	<p>1. Put in place an effective import quality control system, using modern methods to secure the rights of merchants and local consumers by doing the following:</p> <ul style="list-style-type: none"> ▪ Adopt modern and clear standards for quality specifications for the region. ▪ Speed up the enactment of a law for protection of consumer rights in the Kurdistan region, including deterrent penalties against violators. ▪ Subject all imported goods to quality control measures in specialized laboratories, but such measures should not be used as red-tape obstacles to the smooth flow of necessary goods that do meet specifications. They should be modeled on advanced and accredited international procedures for quality control. ▪ Encourage all companies working in the region to obtain the ISO-9001 international certification.

	<ul style="list-style-type: none"> ▪ Create an official award on behalf of senior government levels in the region in recognition of those companies and factories that are distinguished in quality, similar to existing international awards. <p><u>Stakeholders:</u> Council of Ministers Ministry of Trade</p>
2. The difficulty of returning imports that do not meet the specifications as set out in the contracts with the exporting parties and suppliers, or goods that violate standard specifications.	<p>2. Proposed solutions:</p> <ul style="list-style-type: none"> ▪ Facilitate the process of returning imported goods that violate the terms of agreement with the exporting party and supplier. ▪ Draw up a list of the names of the foreign companies and exporters that practice commercial and industrial fraud and deception, and inform local importers to avoid dealings with them. <p><u>Stakeholders:</u> Council of Ministers Ministry of Trade Ministry of Foreign Affairs</p>

Customs

Problems	Proposed Solutions
1. Prolonged and slow procedures at border control, inspection, and customs points.	<p>1. Develop customs administration and procedures at border crossings.</p> <p><u>Stakeholders:</u> Customs Authority</p>
2. The use of improvised methods based on personal estimates by some customs officials when determining the rate of customs duties imposed on goods.	<p>2. Review the regulations and methods used to determine customs and establish origin, quality, and expiry term of goods.</p> <p><u>Stakeholders:</u> Customs Authority</p>
3. Heavy financial burdens resulting from customs duties, charges, and taxes.	<p>3. Review the duties and taxes imposed.</p> <p><u>Stakeholders:</u> Customs Authority</p>
4. Multiplicity of laws and customs procedures applied in Iraq and in the region, sometimes conflicting with each other.	<p>4. Standardize laws and procedures, cut down red tape, and do away with unnecessary, redundant procedures.</p> <p><u>Stakeholders:</u> Customs Authority</p>
5. Poor level of education and training among cadres working in some government	<p>5. Build capacities and learning and receptiveness of customs department workers</p>

institutions and in the customs departments; ignorance of financial and customs policies in a market economy and the main role of the private sector.	to make them more aware of financial and customs policies in a market economy. <u>Stakeholders:</u> Customs Authority
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Wholesale and Retail

Problems	Proposed Solutions
1. High rents of stores and warehouses, representing a major challenge to commercial activities in both wholesale and retail, with the addition of extra unwarranted costs such as key money and sub-leasing.	1. Proposed solutions: <ul style="list-style-type: none"> ▪ Promote investments in commercial building construction and in establishing big real estate corporations. ▪ Enact a leasing law that creates a balance between leasers and lessees of commercial real estate. ▪ Enact laws related to ownership of real estate for commercial use that meet the requirements of development in the private commercial sector. <u>Stakeholders:</u> Regional Parliament Ministry of the Interior
2. Concentration of commercial activities in the center of the big cities and the problems resulting from that.	2. Complete the master plans for cities, expand the areas allocated for commercial activity, and address the over-concentration in city centers by transferring commercial activities to the suburbs and population centers surrounding major cities. <u>Stakeholders:</u> Ministry of Planning Ministry of Municipalities

Human Resources

Problems	Proposed Solutions
1. High salaries of workers in the commercial sector; substantial shortage of all kinds of labor, skilled and un-skilled (loading and unloading of goods, packing, etc.)	1. Address the shortage of labor through the reform of labor and residence laws for both the private and public sectors, including: <ul style="list-style-type: none"> ▪ Conduct a review of the concepts of labor and fiscal policies that are imposed on income from the practice of a second profession. ▪ Restructure the public sector work force, and put an end to underemployment by expanding private sector activity and increasing the volume of its investments. ▪ Adopt a comprehensive new national strategy for education and vocational training; upgrade the skill-levels of the

	<p>labor force, including those employed by the commercial sector to render it competitive with the more efficient expatriate labor force.</p> <p><u>Stakeholders:</u> Ministry of the Interior Ministry of Labor and Social Affairs Ministry of Education Ministry of Higher Education and Scientific Research</p>
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Financing

Problems	Proposed Solutions
1. The obvious shortage in banking facilities and services of all kinds; lack of confidence and incentives for dealing with the banks.	<p>1. Promote the establishment of more private banks, address the issue of development and privatization or restructuring of government banks, and implement the role of the Central Bank, Hareem Branch, by putting in place policies for extending credit, setting interest rates, and establishing oversight for banks and bank governance.</p> <p><u>Stakeholders:</u> Central Bank, Hareem Branch Ministry of Finance</p>
2. The difficulties facing companies and businessmen when they attempt to open Letters of Credit (L/Cs), leading them to the use of cash transfers or to open L/Cs in neighboring countries.	<p>2. Issue legislation by the Central Bank, Hareem Branch, for opening L/Cs in commercial banks, whether governmental (Rafidain and Rasheed Banks) or private, due to the importance of this measure in supporting private commerce.</p> <p><u>Stakeholders:</u> Central Bank, Hareem Branch Ministry of Finance</p>

The Informal (Parallel) Trade Sector

Problems	Proposed Solutions
1. Widespread informal trade activities (door-to-door salesmen and street vendors) that do not fall under any form of legal, administrative, or regulatory control, and the resulting competition with formal trade.	<p>1. Proposed solutions:</p> <ul style="list-style-type: none"> ▪ Reform legislation that regulates the profession and encourage the informal sector (unregistered in government departments) to register. Make the informal sector subject to quality requirements and legal liability. Put in place controls and terms for practicing the profession in accordance with government classifications for domestic trade.

	<ul style="list-style-type: none"> ▪ Set up a database that collects available data on the informal trade sector to help planning and adoption of appropriate remedies. <p><u>Stakeholders:</u> Regional Parliament Ministry of Trade Ministry of Planning</p>
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Public Policies

Problems	Proposed Solutions
1. Growing role of the state in this sector, coupled with the lack of regulatory and planning frameworks. This continues to obstruct the growth of a private sector role.	<p>1. The regional government should start adopting a clear program for privatization to put an end to mistakes resulting from government management of all economic activities.</p> <p><u>Stakeholders:</u> Council of Ministers Regional Parliament</p>
2. Time-consuming and complicated red tape facing commercial activities in import and export activities.	<p>2. Proposals for the solution:</p> <ul style="list-style-type: none"> ▪ Cut down on red tape for import-export manifest and freight documentation while making sure of sound origin of goods and trademarks documentation. ▪ Set up departments for trade in the governorates in the region to complete all transactions without the need to defer to the Ministry, thus cutting down on red tape and saving time, cost, and effort. <p><u>Stakeholders</u> Ministry of Trade Customs Authority</p>
3. Absence of Iraqi commercial representation offices and consulates abroad.	<p>3. Jumpstart the role of commercial representations and consulates, in cooperation with the federal government in Baghdad, in promoting exports and investment in the region.</p> <p><u>Stakeholders:</u> Ministry of Trade Ministry of Foreign Affairs</p>

Challenges and Aspirations

Challenges

The major challenges facing the commercial sector, both public and private, reveal an extremely important fact: the inability of any single party to face these challenges alone. The most outstanding challenge revolves around the negotiations to potentially gain entry into the World Trade Organization (WTO) and its ramifications for both sectors. Other challenges include the full implementation of the Investment Law. In the foreseeable future, it will not be easy to coordinate with—and receive complementary support from—the federal government, so the leadership of the commercial sector must take this into consideration and not rely on it in the near-term.

Aspirations

The private commercial sector began its activities in earnest three decades ago, but it is still unable to freely engage in all aspects of domestic and foreign trade. This is the result of state interference at times, and of state monopolization of certain activities at others. The private commercial sector aspires for greater government support to jumpstart its role in domestic and foreign trade. Many decades of commerce have demonstrated the sector's capabilities in bearing responsibility for its operations and have given rise to special institutions capable of taking over the role of the state in stabilizing the domestic market and providing goods and supplies that are needed by the region.